EX PARTE OR LATE FILED

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Carol L. Bjelland
Director
Regulatory Matters

January 13, 1993

Ms. Donna Searcy
Secretary
Federal Communications Commission
1919 M Street, N. W.
Washington, D. C. 20554

RE: EX PARTE: CC Docket No. 92-101

Dear Ms. Searcy:

Please be advised that, today, GTE delivered the attached letters to Chairman Sikes and Commissioners Quello, Marshall, Barrett and Duggan. In addition, copies of the letters were delivered to Cheryl Tritt, Chief of the Common Carrier Bureau, and to Kathleen Abernathy, "Pete" Belvin, Madelon Kuchera and Linda Oliver.

Questions concerning the attached should be directed to the undersigned.

Sincerely,

Carol L. Bjelland

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Attachments

C: Chairman Sikes
Commissioner Quello
Commissioner Marshall
Commissioner Barrett
Commissioner Duggan
Cheryl Tritt
Kathleen Abernathy
Madelon Kuchera
Linda Oliver
Pete Belvin

Geoffrey C. Gould
Vice President-Regulatory &
Governmental Affairs

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

January 12, 1993

The Honorable Alfred C. Sikes
Chairman
Federal Communications Commission
Room 814
1919 M Street, NW
Washington, DC 20554

Dear Commissioner Sikes:

During the last several weeks, MCI Communications Corporation submitted three letters to the Federal Communications Commission. Daniel F. Akerson, President and Chief Operating Officer of MCI submitted a letter to you dated December 17, 1992, while Donald Evans, Director-Regulatory Affairs, submitted two letters; one addressed to all legal assistants on December 18, 1992, and a second letter to Cheryl Tritt on January 6, 1993. In all of these letters, MCI urged that exogenous treatment of expenses related to other postretirement benefits be denied. GTE, along with other local exchange companies, has spelled out its position in comments, replies, supporting studies, and ex partes filed in CC Docket 92-101. We believe this position is consistent with the Commission's policies and objectives for price cap regulation, and that expenses related to the accounting change spelled out in Statement of Financial Accounting Standards (SFAS) No. 106 should be afforded exogenous treatment. As our position has already been articulated in the various docket pleadings, it would not be particularly beneficial to repeat it now. Rather, I would like to address the points raised in Messrs. Akerson and Evans letters, as I believe they are misleading and misrepresentative of our position.

Mr. Akerson indicates that LECs are seeking relief from the regulatory framework they advocated just a few years ago, namely price caps. This clearly is not the case. It is important to recall that the price cap regulatory framework adopted by the Commission specifically made provision for exogenous treatment of accounting changes and other external factors that were beyond the control of management and that would not otherwise be recovered by inflation adjustments. While costs related to postretirement benefits have existed for some time and are the result of

labor negotiations and concessions/compromises, the accounting method by which these costs are recognized has changed substantially with the adoption of SFAS No. 106. This accounting standard change requires that postretirement benefit costs be recognized when they are earned, rather than when they are paid. Moreover, this accounting standard change was made by an independent entity, not by GTE and other local exchange carriers.

Mr. Evans asserts that LECs are trying to create a jig saw puzzle out of the GNP-PI. In fact, LECs are merely conforming to the FCC's requirements to justify the extent of exogenous treatment we believe is required as a result of the FASB's decision. MCI has submitted little, if any, information to challenge the facts and analyses the LECs have put on the record to support exogenous treatment.

Furthermore, Mr. Evans states, "SFAS 106 has not triggered an economic event which will increase the actual cash cost to any LEC," and that LEC financial risks will not be increased if this Commission finds SFAS No. 106 costs to be endogenous. First, a number of LECs have pro-actively pre-funded a portion of their postretirement benefits liability prior to the adoption of the new accounting standard. This, coupled with the funding done in the future, has and will result in an actual additional cash cost to LECs. Second, with regard to financial risk, Mr. Evans is suggesting that a postulated change in stock price of a company automatically implies a change in the cost of capital. This argument is both unsupported and erroneous. Changes in cost of capital are caused by changes in risk, not simply by a change in stock price. This subject was thoroughly discussed in USTA's rebuttal comments filed with the Commission on July 31, 1992. USTA comments clearly argued that without exogenous treatment of SFAS No. 106, LEC financial risk is increased.

Mr. Evans also suggests that LECs should establish a regulatory asset for the difference between pay-as-you-go costs (the current method of accounting) and SFAS No. 106 accrual levels. The establishment of regulatory assets related to SFAS No. 106 has generated much discussion and debate within the accounting profession of late. MCI's suggestion would result in the creation of an asset with a life exceeding 20 years. Creating an asset with such a long life would be in direct conflict with the opinions issued by the big six accounting firms and the Emerging Issues Task Force of the Financial Accounting Standards Board.

Mr. Evans also suggests that the Commission "must also undertake a full-scale investigation of LEC access charges and return to ratepayers all amounts which are being unreasonably assessed." His reference to tax rates and pension overfunding are, in our view, inappropriate and misleading, but we also find it ironic that MCI requests this investigation, which is not provided for under price cap rules. As explained above, the LECs have requested no changes in price cap rules. It is only MCI that is requesting changes in the rules for reasons which have absolutely nothing to do with the postretirement benefit costs issue. Certainly this inappropriate request made by MCI should not be given consideration.

Finally, contrary to Mr. Akerson's suggestion, GTE and other LECs are operating in a competitive environment today. Recent Commission actions and proposals concerning expanded interconnection, ONA, and PCS to name but a few, clearly forecast even greater competition in the local exchange communications market. We are not, as Mr. Akerson would have you believe, seeking regulatory relief to avoid making the tough business decisions that will keep our companies financially sound and competitively vigorous. Rather, we are asking for the flexibility to responsibly manage these costs and employee benefits, if necessary, by implementing some price increases as MCI and other companies have the freedom to do. Inasmuch as the Commission's price cap plan explicitly contemplates this flexibility, I urge you to permit price cap companies to treat these costs as exogenous.

Sincerely,

Geoffrey C. Gould
Vice President-Regulatory
and Governmental Affairs
GTE Telephone Operations

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Vice President-Regulatory &
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January 12, 1993

The Honorable Ervin S. Duggan
Comissioner
Federal Communications Commission
Room 832
1919 M Street, NW
Washington, DC 20554

Dear Commissioner Duggan:

During the last several weeks, MCI Communications Corporation submitted three letters to the Federal Communications Commission. Daniel F. Akerson, President and Chief Operating Officer of MCI submitted a letter to you dated December 17, 1992, while Donald Evans, Director-Regulatory Affairs, submitted two letters; one addressed to all legal assistants on December 18, 1992, and a second letter to Cheryl Tritt on January 6, 1993. In all of these letters, MCI urged that exogenous treatment of expenses related to other postretirement benefits be denied. GTE, along with other local exchange companies, has spelled out its position in comments, replies, supporting studies, and ex partes filed in CC Docket 92-101. We believe this position is consistent with the Commission's policies and objectives for price cap regulation, and that expenses related to the accounting change spelled out in Statement of Financial Accounting Standards (SFAS) No. 106 should be afforded exogenous treatment. As our position has already been articulated in the various docket pleadings, it would not be particularly beneficial to repeat it now. Rather, I would like to address the points raised in Messrs. Akerson and Evans letters, as I believe they are misleading and misrepresentative of our position.

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labor negotiations and concessions/compromises, the accounting method by which these costs are recognized has changed substantially with the adoption of SFAS No. 106. This accounting standard change requires that postretirement benefit costs be recognized when they are earned, rather than when they are paid. Moreover, this accounting standard change was made by an independent entity, not by GTE and other local exchange carriers.

Mr. Evans asserts that LECs are trying to create a jig saw puzzle out of the GNP-PI. In fact, LECs are merely conforming to the FCC's requirements to justify the extent of exogenous treatment we believe is required as a result of the FASB's decision. MCI has submitted little, if any, information to challenge the facts and analyses the LECs have put on the record to support exogenous treatment.

Furthermore, Mr. Evans states, "SFAS 106 has not triggered an economic event which will increase the actual cash cost to any LEC," and that LEC financial risks will not be increased if this Commission finds SFAS No. 106 costs to be endogenous. First, a number of LECs have pro-actively pre-funded a portion of their postretirement benefits liability prior to the adoption of the new accounting standard. This, coupled with the funding done in the future, has and will result in an actual additional cash cost to LECs. Second, with regard to financial risk, Mr. Evans is suggesting that a postulated change in stock price of a company automatically implies a change in the cost of capital. This argument is both unsupported and erroneous. Changes in cost of capital are caused by changes in risk, not simply by a change in stock price. This subject was thoroughly discussed in USTA's rebuttal comments filed with the Commission on July 31, 1992. USTA comments clearly argued that without exogenous treatment of SFAS No. 106, LEC financial risk is increased.

Mr. Evans also suggests that LECs should establish a regulatory asset for the difference between pay-as-you-go costs (the current method of accounting) and SFAS No. 106 accrual levels. The establishment of regulatory assets related to SFAS No. 106 has generated much discussion and debate within the accounting profession of late. MCI's suggestion would result in the creation of an asset with a life exceeding 20 years. Creating an asset with such a long life would be in direct conflict with the opinions issued by the big six accounting firms and the Emerging Issues Task Force of the Financial Accounting Standards Board.

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January 12, 1993

The Honorable Andrew C. Barrett
Commissioner
Federal Communications Commission
Room 844
1919 M Street, NW
Washington, DC 20554

Dear Commissioner Barrett:

During the last several weeks, MCI Communications Corporation submitted three letters to the Federal Communications Commission. Daniel F. Akerson, President and Chief Operating Officer of MCI submitted a letter to you dated December 17, 1992, while Donald Evans, Director-Regulatory Affairs, submitted two letters; one addressed to all legal assistants on December 18, 1992, and a second letter to Cheryl Tritt on January 6, 1993. In all of these letters, MCI urged that exogenous treatment of expenses related to other postretirement benefits be denied. GTE, along with other local exchange companies, has spelled out its position in comments, replies, supporting studies, and ex partes filed in CC Docket 92-101. We believe this position is consistent with the Commission's policies and objectives for price cap regulation, and that expenses related to the accounting change spelled out in Statement of Financial Accounting Standards (SFAS) No. 106 should be afforded exogenous treatment. As our position has already been articulated in the various docket pleadings, it would not be particularly beneficial to repeat it now. Rather, I would like to address the points raised in Messrs. Akerson and Evans letters, as I believe they are misleading and misrepresentative of our position.

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January 12, 1993

The Honorable James H. Quello
Commissioner
Federal Communications Commission
Room 802
1919 M Street, NW
Washington, DC 20554

Dear Commissioner Quello:

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January 12, 1993

The Honorable Sherrie Marshall
Commissioner
Federal Communications Commission
Room 826
1919 M Street, NW
Washington, DC 20554

Dear Commissioner Marshall:

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